Opening remarks

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At FinCoNet/JFSA International Seminar
November 16, 2017, Tokyo

Dear Madame Chair, Vice-Chair, moderators, panelists and distinguished guests, ladies and gentlemen, it is my great honor and pleasure to have this opportunity to deliver an opening remark at the FinCoNet/JFSA International Seminar for financial consumer protection.

In my remarks, let me share with you our thinking on FinTech at JFSA, as I believe such could serve as a good introduction to today's seminar, where regulatory and supervisory issues on virtual currencies will be discussed.

(FinTech: "nature of on-going changes" and "creation of the values shared with customers")

I would first like to speak about "nature of on-going changes" and "creation of the values shared with customers".

At present, financial institutions, in general, accumulate

barely the minimum level of customer information captured through very limited routes such as occasional meetings held at branch offices, visits to customers, documents of customers submitted and transfer of funds seen in customer accounts. Financial Institutions generally would have to incur significant cost if they wish to acquire additional information or to process the information to offer bespoke services.

Limitations in both information accumulation and processing confined financial business mainly to B2C models, which provides mass-produced standard products driven by supply-side logic.

The following three ongoing changes may remove such limitations: First, digitalization of human life; second, automatic accumulation of customer life-logs; and third, the emergence of Artificial Intelligence, AI, capable of processing big data and deep learning.

These changes will enable the provision of bespoke products to mass customers. The constraints that led financial services to focus mainly on the B2C business model will be removed. And the door will be opened for a C2B business model that creates shared values based on

the accumulation and analysis of customer information.

Michael Porter and Mark Kramer argued in their 2011 paper titled “Creating Shared Value” that companies can find new markets and establish competitive advantages by creating shared value with their customers, community and society, instead of pursuing business performance and social responsibility separately.

By providing better products and services corresponding to the needs of their customers, companies can contribute to their customers’ growth, which in turn supports stable business for the company and leads to enhance their corporate value. I believe that this applies to financial business as well.

(Questions related to FinTech)

While creating shared value with customers, innovation may bring new issues to us.

The first question that comes to my mind is “Who will lead the business using the accumulated customer information, and will create shared values with customers?”

Our economy, which has been dominated by capital-intensive industries, will be led by knowledge-intensive ones in the near future. How does this apply to financial services? In this regard, customer information and information technology should make a difference in the world of finance.

In terms of customer information, Amazon’s mainframe has access to the exact lines each reader highlighted on the e-book, while on-line shops, such as Rakuten, have broad knowledge on the shopping tendencies of their customers. In contrast, banks only have information on the total amount debited from our monthly credit card payments. Thus, financial institutions seem to be significantly disadvantaged in this regard compared to distributors.

On the information technology front, financial institutions are embarking on in-house development, acquisition of venture firms, and cooperation with those who own technology.

In addition to knowledge, customer convenience such as accessibility for customers and the extent of product range may also be a key factor.

After all, regardless of whether it is a financial institution or other entity, one which:
- successfully develops a customer-oriented business model,
- builds trusting relationships with their customers, and
- demonstrates strong professional competence

will perhaps be selected by the customers.

The second question in my mind is “How will the structure of the networks formed by the customers and financial institutions look like?” This is a topic regulators are particularly interested in.

In the current financial market including the capital market, financial intermediaries such as banks, brokerage firms and insurance companies play a role of hubs for customers who do not engage in direct transactions among themselves or

become a member of the stock exchange.

Given the emergence of Fintech, customers may be provided with a combination of financial and non-financial services. An interface entity-based network may become dominant, since it is difficult for a single corporate group to provide the best quality services in all areas. Thus, an interface company to customers that serves each customer's best interest by providing the products from other entities may have a competitive advantage over financial institutions which try to provide everything in-house.

Decentralized processing through blockchain technology may enable customers to participate directly in exchanges or to transact multilaterally and directly with each other with the help of a facilitator who sets the rule of the game.

In addition, regulators should not only create an environment to promote innovation but also provide the necessary protection to customers at the same time. Excessive regulations in result would stifle innovation. This is also a challenge to be especially addressed by regulators and supervisors.

(How to think “FinTech” and innovations)

Could there be principles which could guide for regulators’ policy choices to be made in meeting a diverse range of challenges? This is a question for us and the participants here to consider.

The digitalization of human life and the advance of financial technology will interact with each other and continue to present new issues to regulators. Ad hoc responses to individual issues will make migration to a coherent regulatory framework difficult.

My thoughts are as follows;
First, the most fundamental point would be that regulators should be guided by their ultimate goal of best promoting national welfare by contributing to the sustainable growth of the national economy and wealth. Regulators’ choices should be consistent with this goal.

Second, regulators should improve the environment and eliminate obstacles in a forward-looking manner to facilitate the emergence and growth of players who create new values shared with customers and to win customer confidence.

Third, when addressing new issues in consumer protection, regulators should not fall behind and should not let damages grow, but should also avoid premature and excessive intervention. The goal should be to take timely and appropriate measures.

Fourth, innovation may possibly turn branch networks and the current IT systems held by incumbents into legacy assets. Regulatory authorities should encourage financial institutions to constantly review their businesses with foresight, but should not revert to the “convoy policy” of making sure that the slowest ship stays in the convoy.

(Introduction of today’s seminar on Virtual Currency)

The topic of the FinCoNet/JFSA International Seminar today is on one of FinTech innovations, “Virtual Currency”.

Let me briefly explain the sessions at today’s International Seminar.

First, we can see the increasing use and transactions of the “Virtual Currency”, VC, like Bitcoin, as a tool for fund transfer or settlement and the recent surge in the so called Initial Coin Offerings, ICOs. Session.1 focuses on the increasing

impacts, as well as risks and challenges, of VCs on the economy and financial consumer protection at national and international level.

Although several member jurisdictions have started to address this issue, the way to approach them may be diverse. In the session.2, we believe it is useful to exchange views on regulatory and supervisory approaches among respective jurisdictions.

The growing usage of ICOs to raise capital can be an emerging area to be discussed. Several regulators have taken steps to raise awareness among retail investors by issuing investor warnings to educate and forewarn them of investing in ICOs.

For example, JFSA has published the "warning about the risks of ICOs" on our website. This publication indicates the warning for users and the applicability of the existing legislation to the business operators of ICOs.

Many regulators are also actively engaged in supervisory efforts to gain information to better understand the prevalence of ICO issuances taking place or being marketed

to investors in their jurisdictions.

I suppose that those issues I have just mentioned are likely to be of common interests at the national and international level. And, I hope all participants here will actively participate in the discussion with great interest.

(Conclusion)

In closing, let me emphasize the importance of promoting cooperation among regulators, private sectors and researchers from all over the world. Occasions such as this Seminar, where members and other stakeholders get together, would be an excellent opportunity to help us learn more from each other and share relevant experiences.

I wish today's FinCoNet/JFSA International Seminar to be a most fruitful and productive event. Thank you very much for your attention.